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SUBJECT: SUPPLEMENTAL BUDGET REJECTED AS PARLIAMENT CLOSES EARLY

REF: LILONGWE 194

11. (SBU) Summary: Parliament finished a four week session on March 22 amid controversy over the opposition's refusal to pass a mid-year supplemental budget. The session ended without any substantive work having been accomplished, and important bills pertaining to local government elections, a national ID system and other legislation were left untouched. The failure of the supplemental will not hamper government operations, but it reveals Mutharika's continued weakness in getting vital legislation passed. The next parliamentary session will be the annual budget session in May/June. End Summary.

12. (SBU) The GOM's primary motivation for presenting the supplemental was to show the Malawi public a tangible dividend in social spending as a result of HIPC debt relief granted in mid-2006. The 9 billion kwacha (US \$65 million) budget request was deficit-neutral, thanks to higher-than-expected tax revenues and debt relief. The funds were earmarked for increased social spending on education and irrigation, as well as augmented budgets for a number of ministries.

13. (SBU) Both major opposition parties, however, voted against the budget request on March 21, stating that they wanted more information on how the government had spent the money allocated in the 2006/7 annual budget. (Comment: Detailed reports on government expenditures are traditionally released only at the end of the GOM fiscal year in June) This came one week after the opposition had, for purely political reasons, rejected the government's nominee for the long-vacant position of Auditor General (reftel).

14. (SBU) Annoyed by the budget rejection, which they saw as the only reason for meeting, government refused to move forward with the session the following day, forcing the Speaker to adjourn Parliament one day ahead of schedule. In four weeks of meeting, Parliament passed three bills authorizing international loans for infrastructure projects, rejected the appointment of the President's Attorney General nominee, and rejected the supplementary budget. More importantly, they failed to discuss bills on local government elections, national registration, the police force, security, and amendments to the criminal procedure and penal codes. Some of that legislation has been pending for discussion for over two years.

15. (SBU) Comment: While Parliament must act as a check on the executive, politics have now trumped everything else, as demonstrated by the stalemate in this session. The failure of the supplemental will not hinder government operations, and the GOM can legally continue to spend through the end of the fiscal year and report expenditures to Parliament afterwards. But this rejection is yet another political setback for Mutharika, who has struggled for his entire term so far to pass reform legislation and get his appointees confirmed.

¶6. (SBU) Parliament's continued failure to pass legislation--more a product of politics than capacity--is beginning to have a real impact. Delegates at a USAID-sponsored business advocacy workshop this week complained openly about Parliament's inability to enact a number of bills that would improve the business and investment climate. Economists and business leaders are concerned that Mutharika's impressive achievements at macroeconomic stabilization and debt relief are only a first step, and that much new reform legislation is needed to provide sustained economic growth. Judging by events in Parliament this week, it will be very difficult for Mutharika to pass any legislation in the upcoming May budget session, or perhaps even for the remaining two years of his term and this Parliament. End Comment.

EASTHAM